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***SB 443 An Act Concerning the Tax Incidence Report, Tax Incidence Analyses
and the Disclosure of Returns and Return Information***

Good afternoon Senator Fonfara, Representative Scanlon, Senator Martin, Representative Cheeseman, and the distinguished members of the Finance, Revenue and Bonding Committee. My name is Margaret Henderson, I live in Danbury, I am Co-President of the Board of Trustees of the Unitarian Universalist Congregation of Danbury, and a member of Recovery For All, a statewide coalition of faith, community, and labor organizations united to eliminate systemic inequalities, which were highlighted by the pandemic, and to rebuild a better Connecticut. Thank you for the opportunity to testify in support of SB 443 An Act Concerning the Tax Incidence Report, Tax Incidence Analyses and the Disclosure of Returns and Return Information.

The tax incidence report must include both the taxes filers pay directly (e.g., income tax, sales tax, property tax, etc.) and those that are indirectly shifted onto them by businesses through higher rents, consumer prices and fees. Connecticut's first tax incidence analysis was done in 2014 using 2011 data. It found that Connecticut's state and local tax system disproportionately impacts low- and middle-income earners. Specifically, it found that taxpayers earning up to \$48,000 per year effectively spent 23.6% of their income on taxes, and the middle-class paid about 13% of their income in taxes. But the top 10% of earners paid just 10%, and the top 1% paid an astonishingly low 7.5%.

Eight years later, the Department of Revenue Services issued a follow-up report in February. The 2022 report, based on 2019 data, shows that low- and middle-income taxpayers have lost ground since 2014, now paying up to 26% of their income in taxes, while the wealthy's effective tax rate went up just 0.3%. And that does not take into account the 1% sales tax surcharge on all restaurant meals and prepared foods. This tax falls disproportionately on low-income families because when you're struggling to make ends meet, you're short on the time and energy needed to cook meals.

So of every \$4 they earn, low-income earners pay about \$1 in taxes. The top 1% of earners pay about 30 cents. This is unconscionable.

The same upside down effect can be said of corporate taxes. The 2022 report shows small businesses with adjusted gross incomes of \$500,000 or less, pay a much higher percentage of that income in taxes than businesses that earn \$1 million or more.

But what's particularly troubling about the 2022 report isn't just that it shows the rich are getting richer and the poor are getting poorer, but that DRS Commissioner Boughton and his team chose to utilize a completely different methodology to prepare the 2022 report than was used in 2014. Four tax categories that were included in 2014 were excluded in 2022 (taxes on utilities, insurance, real estate transactions and estates). The data was reported data by household in 2014 and by individual in 2022. These differences make it very difficult to compare the two reports and understand how relative burdens may have changed. One might wonder if the changes were a deliberate attempt to hide the true regressive nature of Connecticut's tax structure.

The 2022 report, which was outsourced to a third-party vendor, states clearly, almost proudly, that it does not include any forecasting or trend analysis. On page 15, it also states that taxes paid by non-resident corporations were "not in scope for this study." When questioned by members of this Committee on March 11th about relative tax burdens by gender and race, Commissioner Boughton was unable to answer. When asked about the much-whispered myth of millionaires leaving the state, he could only offer anecdotes, not

data. These are vital pieces of the puzzle that should be common sense inclusions in any tax incidence analysis.

Two years ago, our UU congregation in Danbury had some folks from the United Way come tell us about their 2020 ALICE Report, which was based on 2019 data. ALICE households are the working poor - they are Asset Limited, Income Constrained, and Employed. They have no savings for emergencies. This leaves them vulnerable to an illness, an unplanned car repair, home repair or loss of income. Last month our water heater broke and it cost my husband and me \$1800 to replace it.

The ALICE Report's household survival budget in Connecticut is quite austere. In 2020 they allowed about \$30,000/year for a single individual, and just over \$90,000 for a family of 4 with 2 young children. In Connecticut 38% of CT households fall below these levels, and for households of color it's about 60%.

Members of our UU congregation see some of Connecticut's citizens who are struggling economically when we volunteer to serve meals at the Dorothy Day Hospitality House, or when we shop at the cheaper grocery stores in Danbury. There are indeed 2 Connecticuts.

Lawmakers need historical data to enable reasonably accurate forecasting and to inform their tax policy decisions. SB 443 will ensure that the mistakes of the 2022 report do not happen again and provide confidence that DRS will create more apples, not oranges, for future reports.

We respectfully request that the General Assembly make real transformational change in Connecticut's inequities by using coherent, historical data and forecasting to inform their tax policy decision-making. SB 443 will ensure that future tax incidence reports are detailed and uniform, giving policymakers the tools they need to right size Connecticut's unequal tax burdens.

To ensure future reports provide a full picture of how tax burdens impact all kinds of taxpayers, including taxpayers of color and women, we encourage the Committee to include the following language after line 21:

(D) For each income class, the racial and gender makeup;

We urge the Committee to support SB 443 with this change. Thank you for the opportunity to testify.